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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -  
SEPTEMBER 17-21

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#### BUDGET NEGOTIATIONS COMPLICATED BY DISPUTE OVER RETROACTIVITY FOR GOS'S PROMISED 2,500 EUROS/BABY

11. (U) First Vice President and Finance Minister Pedro Solbes would like to make this benefit prospective (not clear from media reports as of exactly when), but all the opposition parties want to make the benefit applicable to parents of children born as of January 1, 2007. (Comment: Usually the minority PSOE government has been able to pass a budget with the help of the Basque and Catalan nationalist parties, but this year's negotiations are proving Qre difficult, no doubt a result of positioning for electoral advantage. It is worth noting that on this expensive spending proposal, the opposition conservative PP party is now favoring more spending while at the same time it criticizes the government in other contexts for loosening the fiscal spigot for electoral reasons.) (El Pais, 9/20/07)

#### ELECTION ECONOMICS: RENTAL HOUSING INCENTIVES ANNOUNCED

12. (U) With only six months until the elections, President Zapatero and Minister of Housing Carme Chacon announced this past week an initiative to provide lower-income renters between the ages of 22-30 with financial incentives to rent. The proposal, which will be the last major initiative to be considered during this term, will provide residents who earn an annual gross income of 22,000 euros or less the ability to receive 210 euros per month in rental subsidies as well as an additional tax deduction similar to those received by homeowners. The GOS estimates that 700,000 families will benefit from this program (out of a pool of those renting the 1.7 million apartments that exist in Spain). Monthly average rents vary, but in Madrid the average is approximately 1,138

eQos/mo while the average nationwide is 720 euros/mo. Over 80 percent of Spaniards live in homes they or their families own, and the GOS is seeking to encourage renting, including other measures to encourage homeowners to offer their properties for rent. The new "housing plan" will cost the government approximately 784.5 million euros per year to implement. Criticisms surrounding this proposal center on the plan's cost as well as its similarity to a 2004 rental program introduced at the beginning of the PSOE administration.

#### NEW SPANISH EMPLOYERS FEDERATION (CEOE) PRESIDENT UNVEILS ECONOMIC PROPOSALS, SUPPORTS NUCLEAR ENERGY

13. (U) EconOff attended a breakfast on 9/18/07 at which Gerardo Diaz Ferran expressed continued confidence in the Spanish Economy's prospects. But, he conceded that there were clouds on the horizon and said that the CEOE would shortly release a document with substantive economic proposals designed to make Spain more competitive. The CEOE would like more "unity" in the Spanish market, i.e. fewer different laws in Spain's 17 autonomous communities; more deregulation; streamlined government administration; liberalized markets, especially in the energy sector; more government use of private sub-contractors; tax policies designed to stimulate savings and investment; and social policies designed to promote more flexible labor markets. In general, Diaz called for more budget restraint. He made favorable remarks about nuclear energy responding to a question. (Comment: In part, the call for more "unity" in the Spanish market is code for resisting separatist initiatives in the Basque Country and Catalonia. (Nueva Economia Forum Ritz Hotel breakfast, 9/18/07))

#### HEAVY SPANISH CENTRAL BANK GOLD SALES COMING TO AN END, MAY PUSH PRICE UP

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14. (U) The Spanish Central Bank had no comment on its plans and/or motivations behind its sales of bullion. (FT 9/18/07)

#### SPANISH ENERGY TRANSMISSION FIRMS TO EXPAND ABROAD

15. (U) The Hydrocarbon Logistic Company (CLH), Spain's primary petroleum pipeline operator, plans to expand operations abroad, particularly in Portugal. CLH is currently in negotiations with Portuguese government and private sector officials to build pipelines in north Portugal that it says would create better distribution efficiencies for both countries. The Electric Network of Spain (REE), Spain's primary electricity network provider, similarly announced plans to develop more projects abroad, particularly in Brazil. REE President Luis Atienza said September 21 that REE planned to enter the Brazilian market through an alliance with Brazil's National Electric Network (REN). Atienza added that REE would go after any opportunities offered by privatization elsewhere in Europe.

#### PROCTER & GAMBLE (P&G) PRESIDENT/CEO INAUGURATES ALCOBENDAS BUILDING

16. (U) EmbOff represented Embassy in this event, which also included the President of the Madrid autonomous community, Esperanza Aguirre, and the Mayor of Alcobendas. Alcobendas is a rapidly growing suburb close to Madrid. Many businesses are opening facilities there. (9/20/07)

#### BRAZIL'S PRESIDENT LULA VISITS

7 (U) On 9/17/07, President Luis Rodriguez Zapatero received President Lula and signed a Memorandum of Understanding on cultural matters. There were no specific agreements on economic/commercial matters (at least none publicly released), but Zapatero focused on the economic agenda and

encouraged Spaniards to invest in Brazil. Santander is now poised to become a banking giant in Brazil if it is able to buy ABN AMRO's Brazilian subsidiary. Santander CEO Emilio Botin reportedly has a good relationship with the Brazilian president because he kept trade lines open to Brazil immediately after Lula's first election victory at a time when many banks were holding back. (Moncloa website:, IHT 9/18/07)

#### REPORT ON BIOFUELS CHALLENGES CLAIMS OF ENVIRONMENTAL BENEFITS

18. (U) A recent OECD report challenged the benefits of biofuels, government subsidies for their production, distribution, and use, and high national tariffs that preclude biofuels trade. The report raised the specter that the "cure" (biofuels) may be more prejudicial than the "disease" (petroleum fuels) in that: 1) the environmental costs of producing biofuels may well be greater than any potential environmental gains generated from use of the biofuels in the transportation sector; 2) government subsidies and mandates are stimulating the production and use of biofuels where otherwise there would be little-to-no economic incentive to invest in this sector; 3) high biofuels tariffs in the developed world preclude development and transport of biofuels in developing countries; and, 4) the increased use of agricultural commodities in the production of transportation fuels is creating a non-productive and threatening food-versus-fuel debate.

19. (U) The report recommends that: "The strategic importance of an objective for first generation biofuels need to be refocused and refined. International organizations such as the IEA, OECD, FAO and World Bank need to continue to adopt a soundly-based, common understanding of the limits of both traditional and second-generation biofuels in their analysis of energy futures;" and, that policy-makers "secure continued R&D for second-generation biofuels, phase out biofuel production mandates and incorporate "technology-neutral policies such as a carbon tax," while also placing international renewable certification on the agenda of the new World Trade Organization committee on trade and environment. (Biofuels: Is the cure worse than the disease? [www.oecd.org/dataoecd/33/41/39276978.pdf](http://www.oecd.org/dataoecd/33/41/39276978.pdf))

#### OLIVE OIL LABEL WAR

10. (U) After years of unfruitful lawsuits, leading olive oil company Carbonell has won a battle against the La Espanola brand, which it accuses of imitating Carbonell's label since 1982. The Court of First Instance of the European Union

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(TUE) has ruled that La Espanola's label is very similar to its competitor's and therefore "causes an elevated risk of confusion for the consumer." Following the favorable ruling in Strasbourg, Carbonell's parent company's president said he would turn to all the necessary courts until he succeeds in obtaining the cancellation of the registered label La Espanola in every country. He added that he would also seek indemnification for damages he said were caused during 25 years of "piracy."

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